



Alaska State Pension Investment Board

P.O. Box 110405
Juneau, Alaska 99811-0405
(907) 465-3749

Message from the Chair

I am pleased to present the 2003 Annual Report of Investments for the period ending June 30, 2003 to you, the participants and beneficiaries of this retirement trust fund.

The difficult economic and stock market environment experienced in fiscal 2001 and 2002 continued through much of fiscal 2003. The stock market reached a low in October 2002, rallied and then tested the low in March 2003. Fortunately, the market rebounded strongly in the June quarter and ended the year with a fractional gain. For the twelve months, U.S. stocks registered a slight positive return of 0.25% as measured by the Standard & Poors' 500 Stock Index. Small cap stocks, as measured by the Russell 2000 Stock Index (comprised of the smallest 2000 of the top 3000 companies ranked by market capitalization), lost 1.6% for the 12 months. International stocks, as measured by the MSCI EAFE Index, declined 6.5%. As was the case throughout the bear market, the real bright spots were high quality investment grade bonds and real estate. The Lehman Aggregate Index, a measure of the investment grade bond market, benefited from the decline in interest rates and returned a handsome 10.4% while various measures of the real estate market produced returns in excess of 7.6%. PERS experienced an overall positive return of 3.7% for the 12 months ended June 30, 2003. While this was below our long-term targets, it is refreshing to see evidence suggesting that the worst market environment in modern financial market history may well have ended and the economy is on a path to gradual recovery.

The System's domestic equity investments experienced mixed results. The System's large company component continued to outperform the S&P 500 by posting a gain of 0.35%. The smaller company component of the domestic portfolio registered a loss of 5.4% and underperformed the Russell 2000 stock index, which fell 1.6% for the year. The System's international equity composite declined 5.8%. While negative, this result was better than the MSCI EAFE Index loss of 6.5%.


On a positive note, the System's domestic bond portfolio slightly outperformed its benchmark index (10.7% for the portfolio versus 10.4% for the index). The decision to maintain significant bond exposure contributed importantly to minimizing losses. PERS' real estate portfolio also helped overall results by posting a positive 8.97% return. For the second year in succession, the biggest bright spot was the performance of the System's international bond portfolio. The portfolio enjoyed a 24.5% return, much of which was attributable to the weakness in the value of the U.S. dollar during the fiscal year. In total, the PERS return during FY03 of 3.7% was slightly below its target return of 4.6%. The primary explanatory factor was a slight over target allocation to equities. A secondary factor was the underperformance of the U.S. small cap equity composite relative to its market benchmark.

It is critical to remember that the System's assets are invested for the long-term. Our objective is to produce a very competitive long-term return that meets the System's funding requirements at an acceptable risk level. Therefore, we are encouraged to observe that the 11 $\frac{3}{4}$ year cumulative annualized return (the longest period available) of 8.14% compares favorably with the System's policy target index return of +8.13% and is very close to the System's actuarial earnings assumption.

The trustees work hard to achieve an asset mix that provides the highest expected return for a given level of risk. Working closely with our dedicated staff in the Department of Revenue and our investment advisors and consultants, we established an investment mix that we believe will provide enhanced returns while maintaining a prudent level of risk. The asset allocation plan adopted by the trustees for FY03 called for an investment distribution as follows: 36% in domestic equities, 15% in international equities, 31% in domestic fixed income, 3% in international fixed income, 6% in private equity and 9% in real estate. This asset allocation is reviewed annually and has been slightly modified for the new fiscal year; it is designed to provide competitive returns at a reasonable level of risk. Fiscal 2003 results were within the range of shorter-term returns envisioned as possible.

ASPIB represents over 60,000 participants and beneficiaries. The trustees strongly believe that you should be kept well informed about the performance of your retirement funds and about what we as fiduciaries are doing on your behalf. To this end, we are proud of the ASPIB web site, which can be accessed at www.revenue.state.ak.us/treasury/aspib/index.htm. We continue to encourage member participation at our meetings, and welcome your letters and comments.

On behalf of all the trustees, thank you for giving us the opportunity to serve as your fiduciaries.



Gail Schubert, Acting Chair

ALASKA STATE PENSION INVESTMENT BOARD

(as of June 30, 2003)



Gail R. Schubert, Acting Chair

Appointed by the Governor

Gail R. Schubert, Acting Chair, was first appointed to the board by Governor Hickel, and reappointed by Governor Knowles. She is currently Executive Vice President and General Counsel to Bering Straits Native Corporation, President of its two 8(a) subsidiaries, and of counsel to the law firm of Foster, Pepper Rubini & Reeves LLC in Anchorage. From 2002 to 2003, Mrs. Schubert was General Counsel to Southcentral Foundation, and from 1995 to 2002, she was a member of Foster Pepper. From 1992 to 1995, Mrs. Schubert practiced law at Birch, Horton, Bittner & Cherot, and from 1982 to 1992, Mrs. Schubert practiced law in New York City at the firms of Rogers & Wells; Fried and Frank, Harris, Shriver & Jacobson; and at the Federal Reserve Bank of New York. Mrs. Schubert attended the School of Law at Cornell University; the Johnson School of Management (MBA) at Cornell; and Stanford University. She serves as Chair of the Boards of the Alaska Native Heritage Center and Akeela Treatment Services, Inc., and on the boards of the Bering Straits Native Corporation, the Alaska Federation of Natives, Khoanic Broadcast Corporation, the Alaska Native Justice Center, and is a member of the Anchorage Downtown Rotary. Mrs. Schubert's term expires December 31, 2003.



William "Riley" Snell, Vice Chair

Appointed by the Governor

William (Riley) Snell, Vice Chair, was appointed to the board by Governor Knowles. Mr. Snell has held numerous positions in State government. He served as the Executive Director of the Alaska Industrial Development and Export Authority (AIDEA) from July 1992 until November of 1996 overseeing banking and development programs. Four years prior to the Executive Director position, Riley served as Deputy Director-Development at AIDEA. From 1985 until July 1989 he served as Deputy Commissioner for the Central Region of the Department of Transportation and Public Facilities. Riley possesses over 27 years of experience in State Transportation and Public Facilities Development and Public Financing. Currently Riley is Vice President and General Manager of Cable and Entertainment for General Communications Inc. (GCI). His responsibilities at GCI include CATV product management as well as construction and maintenance of all outside plant facilities for the company. Mr. Snell's term expires December 31, 2003.



Merritt C. Olson, Secretary

TRS Representative

Merritt C. Olson was elected by the Teachers' Retirement System. He served as a member of the Teachers' Retirement System Board for 14 years, a portion of that time as Chair. He has been an Alaska resident since 1953 and resides in Anchorage. Appointed by Governor Egan to serve on the committee that organized the Student Loan Fund, he also served as a member of AARP's State Legislative Committee. Now a retired secondary mathematics teacher from the Anchorage schools and adjunct instructor of psychology at Alaska Methodist University and the University of Alaska, Anchorage, Mr. Olson earned his Ph.D. from Rutgers University and was a Fulbright Scholar in 1957-58. He is Past President of NEA-Alaska/Retired and served on the NEA-Retired (national) Advisory Council for six years. Mr. Olson's term expires December 31, 2003.



Wilson L. Condon

PERS Representative

Wilson L. Condon was elected by the Public Employees' Retirement System. He is currently Chief of the Oil, Gas & Mining Section at the Department of Law. Previously, Mr. Condon was Commissioner of the Alaska Department of Revenue from 1995-2002. Prior to serving as commissioner, he was a partner in a private law firm from 1983-1995 and acted as lead counsel for the state in a series of oil and gas royalty and tax cases. He served as Attorney General from 1980 - 1982 and as Deputy Attorney General from 1975 - 1980. He holds an A.B. Political Science degree and a J.D. degree from Stanford University. Mr. Condon's term expires December 31, 2006.



William Corbus

Statutory Representative

William Corbus was appointed Revenue Commissioner in December 2002. He oversees an agency that has very diverse responsibilities, including tax collection, investing state funds, child support enforcement and distributing permanent fund dividends. Bill Corbus is the retired president of Alaska Electric Light and Power, the electric company that serves the Juneau area, where he has lived since 1970. He served as a Lt. J.G. in the U.S. Naval Reserve, including one year as an advisor to the Vietnamese Navy in 1962-63. Mr. Corbus then worked for Stone & Webster in New York City providing public utility security analysis, financial planning, and accounting. As Revenue Commissioner, he also sits on nine boards, including the Board of Trustees of the Alaska Permanent Fund Corporation. Mr. Corbus holds a B.S. in industrial engineering from Stanford University and an MBA from the Amos Tuck Graduate School of Business Administration at Dartmouth College.



Jeffrey E. Sinz

Appointed by the Governor

Jeffrey E. Sinz was appointed to the board in 1998 by Governor Knowles. Mr. Sinz is currently employed as Director of Finance for the Kenai Peninsula Borough. He has over twenty years experience in public sector finance, including thirteen years with the Municipality of Anchorage. While at the Municipality, he served as Municipal Accounting Officer, Director of Finance for the Anchorage Telephone Utility, Finance Manager for the Solid Waste Services Utility, and a Senior Budget Analyst for the municipal general government. He also worked as a financial planner and supervisor with the Alaska Railroad Corporation and as a financial administrator with a Wisconsin public school district. Jeff also serves as vice president of the Alaska Municipal League Investment Pool Board of Directors. He has an MBA in Management from the University of Alaska Anchorage and a BBA in Finance from the University of Wisconsin Eau Claire. His term expires December 31, 2004.



James "Pat" Wellington

PERS Representative

James "Pat" Wellington was elected by the Public Employees' Retirement System. Mr. Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers, Chief of Police of Juneau, Deputy Commissioner and Commissioner of the Department of Public Safety, and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also the Chairman of the Public Employees' Retirement Board. He resides in Anchorage. Mr. Wellington's term expires December 31, 2004.



Dorothy Wells

TRS Representative

Dorothy Wells was elected by the Teachers' Retirement System. A resident of Alaska for 37 years, Ms. Wells is a retired teacher who taught business education at Eielson Air Force Base, and business classes for the University of Alaska night school program at Eielson. She obtained her B.S. degree from the University of Minnesota/Minneapolis and did graduate work both there and at the University of Alaska/Fairbanks. Mrs. Wells served on the Teachers' Retirement Board for 20 years, and is active with NEA-Alaska/Retired. Her term expires December 31, 2005.

**Department of Revenue
Treasury Division
Staff**

Commissioner
William Corbus

Deputy Commissioner
Tomas Boutin

Chief Investment Officer
Gary Bader

Comptroller
Betty Martin, CPA

ASPIB Liaison Officer
Judy Hall

Investment Officers

Bob G. Mitchell, Marketable Debt
Stephen R. Sikes
Philip Bartlett
Michael T. Oliver, CFA, Alternatives
Maria E. Tsu, CFA

Cash Management

Michelle M. Prebula, MBA, CPA, CCM

External Money Managers and Consultants

Investment Consultants

Callan Associates Inc.
San Francisco, CA
The Townsend Group
Denver, CO

Domestic Fixed Income

BlackRock Financial Management, Inc.
New York, NY

Domestic Equity Large Capitalization

Capital Guardian Trust Co.
Los Angeles, CA
Dresdner RCM Global Investors
San Francisco, CA
McKinley Capital Management, Inc.
Anchorage, AK
Tukman Capital Management, Inc.
San Francisco, CA

Domestic Equity Small Capitalization

Capital Guardian Trust Co.
San Francisco, CA
John McStay Investment Counsel
Dallas, TX
Trust Company of the West
New York, NY

Domestic Equity Index Fund

State Street Global Advisors
Boston, MA

Domestic Enhanced Index

Invesco Capital Management, Inc.
New York, NY

Emerging Markets

Capital Guardian Trust Co.
Los Angeles, CA
J.P. Morgan Fleming Asset Management, Inc.
New York, NY

Global Equity

Lazard Freres Asset Management
New York, NY

International Equity—EAFE

Bank of Ireland Asset Management (US) Ltd.
Santa Monica, CA
Brandes Investment Partners, L.P.
San Diego, CA
Capital Guardian Trust Co.
Los Angeles, CA

External Money Managers and Consultants (con't)

International Fixed Income

Delaware International Advisers Ltd.
London, England

Private Equity

Abbott Capital Management, L.P.
New York, NY
Pathway Capital Management, LLC
Irvine, CA

Performance Measurement

Callan Associates Inc.
Denver, CO

Real Estate Management—Commingled Funds

Heitman Capital Management
Chicago, IL
J.P. Morgan Investment Management Inc.
New York, NY
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
Hartford, CT

Real Estate—Core Separate Accounts

PM Realty Advisors
Newport Beach, CA
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
San Francisco, CA

Real Estate—Value Added Separate Accounts

Invesco Realty Advisors
Dallas, TX
Lowe Enterprises Investment Management Inc.
Los Angeles, CA

Supplemental Benefits System

Barclays Global Investors
San Francisco, CA
Capital Guardian Trust Company
Los Angeles, CA
Citizens Funds
Portsmouth, NH
State Street Global Advisors
Boston, MA
T. Rowe Price Investment Services
Baltimore, MD

Deferred Compensation

Barclays Global Investors
San Francisco, CA
Capital Guardian Trust Company
Los Angeles, CA
T. Rowe Price Investment Services
Baltimore, MD & Glen Allen, VA

Global Master Custodian

State Street Bank & Trust Co.
Boston, MA

Investment Advisory Council

Shlomo Benartzi
Los Angeles, CA
Jerrold Mitchell
Wayland, MA
Timothy O'Brien
Denver, CO

Independent Auditors

KPMG LLP
Anchorage, AK

Legal Counsel

Wohlforth, Vassar, Johnson & Brecht
Anchorage, AK

Public Employees' Retirement System Investment Report

The Investment Report was prepared by the State of Alaska, Department of Revenue, Treasury Division.

The basis of presentation for the data reported in the investment section is in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

INVESTMENTS

The State of Alaska Public Employee Retirement System's investment goals are the long term return and sustainability of the pension funds under management. Near-term market fluctuations are integrated into the overall outlook of the fund guidelines. Annually the Alaska State Pension Investment Board (ASPIB) sets its asset allocation strategy in order to reflect changes in the market place while still retaining an optimal risk/return level within the set constraints and objectives of the Investment Board.

During the 2003 Fiscal Year¹, ASPIB's asset allocation was 40.24% domestic equities, 16.6% international equities, 29.6% domestic fixed income, 3.72% international fixed income, 6.94% real estate and 2.9% alternative investments.

For the 2003 Fiscal Year, PERS investments generated a 3.67% rate of return. The PERS annualized rate of return was negative 2.48% over the last three years and 2.47% over the last five years.

INVESTMENT OVERVIEW

The diversification of the PERS investment portfolio continued to protect the overall returns from the bear markets which began in the spring of 2000. For the Fiscal Year, the U.S. equity portfolio fell -0.97% and the international equity portfolio dropped -5.83% (as compared to the 2002 Fiscal Year losses of -16.8% and -8.3%, respectively).

Positive performance was provided in the U.S. fixed-income market, which generated a 10.69% return up from 8.2% the previous year.

ASPIB continued the systematic increase in PERS investments in real estate and private equity. The real estate portfolio earned 8.97% for the 2003 Fiscal Year versus 5.2% in Fiscal Year 2002. The PERS investments in private equities lost 14.75%, as compared to a 17.1% loss in 2002. Over the past five years, PERS real estate investments have earned an average of 10.5% per year.

DOMESTIC ECONOMY

The U.S. economy grew slowly during the 2003 Fiscal Year as it climbed out of the recession, which began during the last quarter of the 2001 Fiscal Year. The continued effects of September 11th as well as market ripples from the collapse and scandals of Enron, WorldCom, and Arthur Anderson were felt throughout the markets. Built atop these events were the military actions in Afghanistan and Iraq.

By historical standards, the U.S. recession was extremely mild and short-lived. The economy actually expanded by 3.9% during the 2003 Fiscal Year, compared with 3.3% in 2002 and 2.3% in 2001. Although the net change in the consumer confidence index was negative, there was a steep climb and leveling out of the curve during the third and fourth quarters as the Iraq war drew to an official end. Retail sales maintained historical patterns although the index fell 2.5% from the previous year.

Lower and lower mortgage rates spurred consumers to purchase new houses. Sales of new homes totaled 1,028,417 up from the 2002 Fiscal Year number of 914,580. Sales of existing homes hit a five year high with the sale of 5.713 million units, a 4.7% increase from 5.457 million units in 2002. Finally this change in interest rates spurred the largest growth in mortgage refinancing seen in a lifetime, with a 227% increase in the number of refinancing in June, 2003 as compared to June 2002.

¹ July 1st, 2002 – June 30th, 2003

Public Employees' Retirement System Investment Report

Inflationary concerns were within acceptable constraints in the 2003 Fiscal Year as The Consumer Price Index (CPI) rose only 2.1% compared to 1.1% in the 2002 Fiscal Year. The Producer Price Index (PPI) rose 2.9% in the 2003 Fiscal Year while it dropped 2.1% in the 2002 Fiscal Year.

EQUITIES

The domestic market rose, following the resolution of the Iraq war, in the third and fourth quarters of the 2003 Fiscal Year. With a net return of -0.97% these year-end gains were not quite enough to bring the equity returns into the black and PERS felt a third year of negative domestic equity returns. The International Equity pool felt a similar fluctuation as it ended with a -5.83% return, which was higher than the index return of -6.46%.

The annualized domestic equity return for the five year period fell to a negative 1.43% versus 3.1% in the 2002 Fiscal Year. While the international equity return for the five year period fell to a negative 0.13%.

Small-cap managers underperformed large-cap managers over year as a whole, while small-cap managers had a very strong fourth quarter with 23.67% returns.

FIXED INCOME MARKET

The domestic fixed-income portfolio represented approximately 29.6% of the total assets of PERS as of June 30, 2003. The fixed-income portfolio uses a core-oriented strategy investing in U.S. Treasury securities, U.S. government agency securities, investment-grade corporate bonds, and mortgage-backed securities. The benchmark for the PERS bond portfolio is the Lehman Brothers Aggregate Bond Index.

As the domestic economy continued to slowly build interest rates remained at all time lows, which translated into good news for bond investors. The 10-Year U.S. Treasury yield dropped from 4.82% to 3.53% during the 2003 Fiscal Year, reaching a low of 3.10% in mid June of 2003. The 30-year U.S. Treasury yield dropped from 5.50% to 4.57%. Corporate fixed-income markets were well monitored, as ratings agencies maintained conservative ratings methodologies.

Over the 2003 Fiscal Year, the PERS domestic bond portfolio gained 10.69%, up from 8.2% the year before. The Lehman Brothers Aggregate Bond Index returned 10.40%, versus 8.6% during 2002 Fiscal Year.

The international fixed-income portfolio, which represented just about 3.72% of the total assets of PERS, returned 24.48% over the 2003 Fiscal Year, well above the 17.90% posted by the Salomon Brothers Non U.S. Government Index.

REAL ESTATE

At the end of the 2003 Fiscal Year, PERS had 6.93% of its portfolio invested in real estate, just shy of its target of 9% (+/- 2%). At fiscal year end, the real estate portfolio totaled \$767 million. The total return for real estate, net of fees, was 8.97% compared to 5.2% for the 2002 Fiscal Year. The three and five year total returns were 8.15% and 9.06%, respectively.

ASPIB's early defensive strategy benefited the portfolio in the 2003 Fiscal Year. The delay in the recovery of the economy and the real estate market has increased the value of that position. Although there have not been large capital gains, the defensive strategy has helped ASPIB maintain a very competitive position in relationship to other real estate portfolios. ASPIB's real estate portfolio is made up of 31% apartment, 31% office, 23% industrial, 14% retail and 1% hotel.

Public Employees' Retirement System Investment Report

PRIVATE EQUITY

During the 2003 Fiscal Year the Private Equity component of the PERS portfolio showed a net return of -14.75% with three and five year annualized returns of -10.60% and -.081%, respectively.

ASPIB's managers have committed \$29.7 Million during the 2003 Calendar Year, as compared to the \$195 million targeted for the 2003 Calendar year. The slow pace of new commitments represents the relative dearth of fund raising activity among many of the high quality General Partner groups.

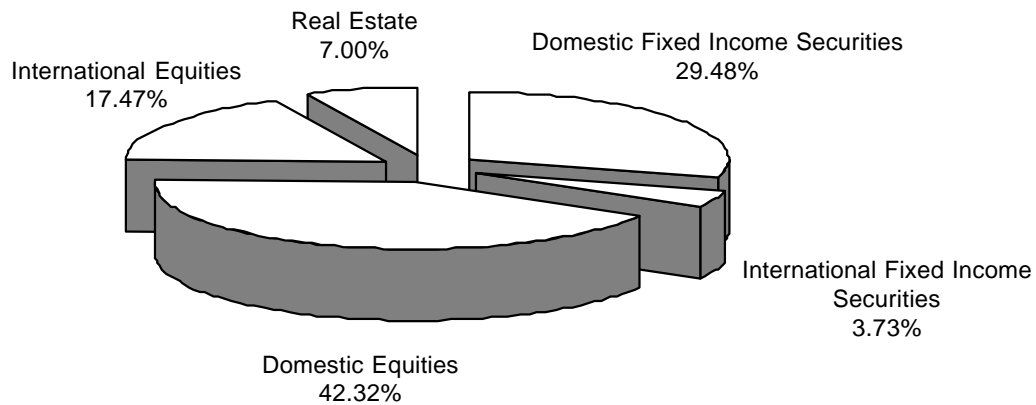
IPO activity has declined, with only seven in the first half of the 2003 calendar year, as compared to 422 in 2000, 90 in 2001 and 85 in 2002.

Although the rise in the public equity markets seen late in the Fiscal Year, as noted above, did strengthen the overall outlook of the markets, it did not help to build the private equity markets which remains anemic compared to the internet boom of late-1999/early-2000.

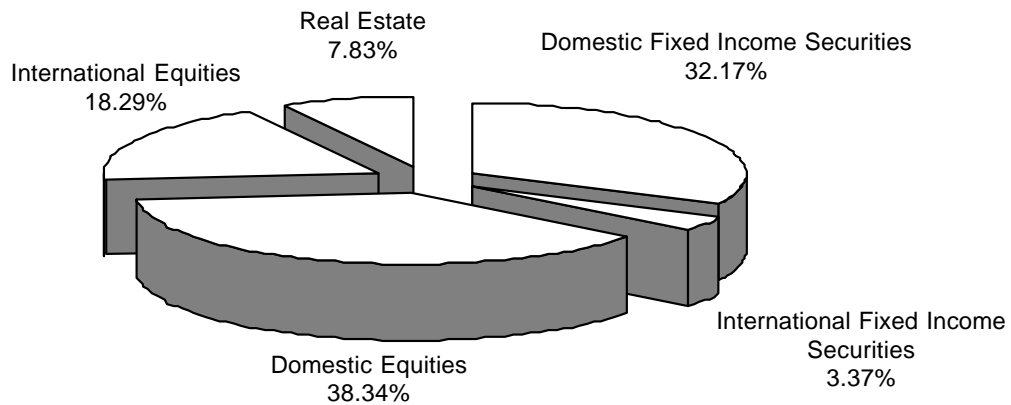
Public Employees' Retirement System Schedule of Investment Results Fiscal Years Ended June 30							
	1999	2000	2001	2002	2003	Annualized	
						3 Year	5 Year
Total Fund							
PERS	10.59%	10.07%	(5.25%)	(5.48%)	3.67%	(2.48%)	2.47%
Actuarial Earnings Rate	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
U.S. Common Stock Returns							
PERS Domestic Equities	16.56%	10.41%	(12.20%)	(16.85%)	(0.97%)	(10.25%)	(1.43%)
S&P 500	22.76%	7.24%	(14.83%)	(17.99%)	0.25%	(11.20%)	(1.61%)
International Stock Returns							
PERS International Equities	14.72%	20.59%	(16.89%)	(8.27%)	(5.18%)	(10.25%)	0.00%
Morgan Stanley Capital International EAFE	7.62%	18.11%	(23.83%)	(9.49%)	(6.46%)	(13.52%)	(4.00%)
Domestic Fixed Income							
PERS	2.24%	4.55%	11.83%	8.17%	10.69%	10.22%	7.43%
Lehman Brothers Aggregate Index*	2.69%	1.69%	11.22%	8.63%	10.40%	10.08%	7.46%
International Fixed Income							
PERS	5.27%	(3.27%)	(5.68%)	22.56%	24.48%	12.90%	7.94%
Salomon Non-U.S. Government	4.87%	2.42%	(7.43%)	15.73%	17.90%	8.10%	6.29%
Real Estate Equity							
PERS	10.51%	8.43%	11.43%	5.24%	8.97%	8.15%	9.06%
NCREIF	11.24%	11.61%	11.15%	5.60%	7.64%	8.21%	9.79%
<p>S&P 500 = Standard & Poor's Domestic Equity Stock Index EAFE = Europe, Australia, and Far East Stock Index NCREIF = National Council of Real Estate Investment Fiduciaries Index</p> <p>The calculation of investment results were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.</p> <p>*Lehman Brothers Government/Corporate Index prior to 3/31/2000.</p>							

**Public Employees' Retirement System Trust Fund
Actual Asset Allocation**

June 30, 2003



June 30, 2002



**Alaska State Pension Investment Board
Top Ten Holdings by Asset Type
June 30, 2003**

Invested assets under the fiduciary responsibility of the Alaska State Pension Investment Board (ASPIB) have been commingled in various investment pools to minimize costs and maximize returns. Treasury Division has created nine different mutual fund-like pools to accomplish the investment asset allocation policies of the ASPIB. Using investment pools increases investment efficiency in three ways. First, combining individual funds' cash inflows and outflows to offset each other reduces the amount of cash on hand needed to support daily operations. Treasury can thus increase the return on funds not needed for daily cash operations. Second, pooling investments significantly reduces accounting, budgeting and administrative costs. Finally, the ASPIB can achieve economies of scale by making available investment options that could not otherwise be practically provided for smaller retirement funds. Following are the ten largest bond holdings and the ten largest equity holdings by market value.

	Rank	Fair Value	Par Values/ Shares	Security	Coupon	Due	Credit Rating
Bonds	1	133,105,425	128,140,000	Federal National Mtg. Assn.	6.000%	12/31/2099	Aaa
	2	99,795,000	100,000,000	U.S. Treasury Bill	0.000%	9/25/2003	Aaa
	3	61,603,236	59,700,000	Federal Home Loan Mtg. Corp.	5.500%	12/31/2099	Aaa
	4	57,980,322	49,266,548	U.S. Treasury Note	4.250%	1/15/2010	Aaa
	5	45,120,250	43,700,000	Federal National Mtg. Assn.	5.000%	12/31/2029	Aaa
	6	44,881,471	42,974,273	Federal National Mtg. Assn.	6.500%	5/1/2029	Aaa
	7	40,922,294	36,335,000	U.S. Treasury Bond	5.375%	2/15/2031	Aaa
	8	38,608,666	28,900,000	U.S. Treasury Bond	10.375%	11/15/2012	Aaa
	9	38,076,754	26,150,000	U.S. Treasury Bond	12.000%	8/15/2013	Aaa
	10	37,349,624	25,530,000	U.S. Treasury Bond	8.125%	8/15/2021	Aaa
Equities	1	125,092,338	3,663,026	Pfizer Inc.			
	2	104,630,376	3,648,200	General Electric Co.			
	3	93,630,672	3,656,020	Microsoft Corporation			
	4	93,240,891	1,737,300	Wal Mart Stores, Inc.			
	5	76,113,328	2,119,558	Exxon Mobil Corporation			
	6	74,006,079	1,729,114	Citigroup Inc.			
	7	68,693,184	1,362,960	Wells Fargo Company			
	8	64,217,601	1,163,784	American International Group Inc.			
	9	63,574,500	770,600	International Business Machines			
	10	63,016,476	934,408	Federal National Mtg. Assn.			

Additional investment information on the various pools and investments may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405.

**Public Employees' Retirement System
Schedule of Investment Management Fees
Year Ended June 30, 2003**

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2003	Fees
External Management Fees		
Domestic Fixed Income		
BlackRock Financial Management, Inc.	\$ 1,169,059,304	\$ 1,018,369
International Fixed Income		
Delaware International Advisers, Ltd.	410,977,477	418,973
Domestic Equity		
Capital Guardian Trust Co.	808,784,270	698,401
John McStay Investment Counsel	265,076,051	1,135,711
Trust Company of the West	192,351,674	852,664
State Street Global Advisors	1,204,552,187	168,398
Invesco Capital Management, Inc.	532,009,749	506,973
Lazard Freres Asset Management	408,950,062	958,576
McKinley Capital Management, Inc.	212,491,222	467,264
Dresdner RCM Global Investors	456,482,259	810,893
Tukman Capital Management, Inc.	369,261,976	1,240,562
Total Domestic Equity	4,449,959,450	6,839,442
Private Equity		
Pathway Capital Management, LLC	30,241,060	200,621
Abbott Capital Management, L.P.	290,780,031	640,052
Total Private Equity	321,021,091	840,673
International Equity		
Bank of Ireland Asset Management Ltd	375,067,645	796,321
Brandes Investment Partners, L.P.	569,331,965	1,360,268
Lazard Freres Asset Management	410,796,235	947,419
Capital Guardian Trust Co.	365,995,645	575,716
Total International Equity	1,721,191,490	3,679,724
Emerging Markets Equity		
J.P. Morgan Fleming Asset Management, Inc.	51,736,666	285,401
Capital Guardian Trust Co.	62,924,237	220,607
Total Emerging Markets Equity	114,660,903	506,008
Total External Management Fees	\$8,186,869,715	13,303,189

**Public Employees' Retirement System
Schedule of Investment Management Fees (con't)
Year Ended June 30, 2003**

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2003 (con't)	Fees (con't)
External Management Fees (con't)		
Other Management Fees		
Custodian		
State Street Corporation		680,415
Investment Advisory		
Callan Associates Inc.		64,308
The Townsend Group		83,455
Total		147,763
Investment Performance Measurement		
Callan Associates Inc.		110,742
Total Other Management Fees		938,920
Total Management Fees		\$14,242,109

**Public Employees' Retirement System
Investment Summary Schedule
June 30, 2003**

	Public Employees' Asset Allocation Policy Range		Market Value	% of Asset Class	% of Total Assets
Participation in Pools Owning					
Fixed Income Securities					
Domestic					
Short-Term Fixed Income Pool			\$ 523,685	0.02%	0.01%
Retirement Fixed Income Pool			1,402,391,645	64.38%	18.98%
External Domestic Fixed Income Pool			<u>775,378,644</u>	<u>35.60%</u>	<u>10.49%</u>
Total Domestic Fixed Income	31%	28-34%	<u>2,178,293,974</u>	<u>100.00%</u>	<u>29.48%</u>
International					
International Fixed Income Pool	<u>3%</u>	<u>2-4%</u>	<u>275,270,800</u>	<u>100.00%</u>	<u>3.73%</u>
Total Fixed Income Securities	<u>34%</u>	<u>30-38%</u>	<u>2,453,564,774</u>		<u>33.21%</u>
Participation in Pools Owning					
Domestic Equities					
Small cap ⁽¹⁾ and Alternative Investments					
Domestic Equity Pool			615,814,197	19.69%	8.33%
Private Equity Pool			<u>31,672,694</u>	<u>1.01%</u>	<u>0.43%</u>
Total Small Cap Domestic Equities and Alternative Investments	8%	6-10%	<u>647,486,891</u>	<u>20.70%</u>	<u>8.76%</u>
Large cap and Alternative Investments					
Domestic Equity Pool-active			1,197,745,009	38.31%	16.21%
Domestic Equity Pool-passive			1,160,669,556	37.11%	15.71%
Private Equity Pool			<u>121,298,508</u>	<u>3.88%</u>	<u>1.64%</u>
Total Large Cap Domestic Equities and Alternative Investments	<u>32%</u>	<u>29-35%</u>	<u>2,479,713,073</u>	<u>79.30%</u>	<u>33.56%</u>
Total Domestic Equities	<u>40%</u>	<u>35-45%</u>	<u>3,127,199,964</u>	<u>100.00%</u>	<u>42.32%</u>
Participation in Pools Owning					
International Equities					
International Equity Pool			1,153,385,203	89.34%	15.61%
Emerging Markets Equity Pool			74,527,573	5.77%	1.01%
Private Equity Pool			<u>63,154,285</u>	<u>4.89%</u>	<u>0.85%</u>
Total International Equities	<u>17%</u>	<u>14-20%</u>	<u>1,291,067,061</u>	<u>100.00%</u>	<u>17.47%</u>
Participation in Real Estate					
Mortgages, net of allowances			141,537	0.03%	0.00%
Real Estate Pool			<u>517,432,671</u>	<u>99.97%</u>	<u>7.00%</u>
Total Real Estate	<u>9%</u>	<u>6-12%</u>	<u>517,574,208</u>	<u>100.00%</u>	<u>7.00%</u>
Total Invested Assets	100%		\$ 7,389,406,007		100.00%

⁽¹⁾ Includes only securities held by those managers with small cap mandates. Does not include small cap holdings which may be held in other managers' portfolios.

**Public Employees' Retirement System
Credit Risk of Investments
Pension Trust Funds
(Expressed in Thousands)
June 30, 2003**

	Category			Fair Value
	1	2	3	
Marketable debt securities				
Domestic fixed income	\$ 2,177,771			2,177,771
International fixed income	275,271			275,271
Equity securities				
Domestic equities	2,974,229			2,974,229
International equities	1,153,385			1,153,385
Emerging market equities		74,527		74,527
	<u>\$ 6,580,656</u>	<u>74,527</u>	<u>-</u>	<u>6,655,183</u>
Not Categorized				
Private equities				216,125
Real estate equities				<u>517,574</u>
Total investments not categorized				<u>733,699</u>
Total investments				<u><u>7,388,882</u></u>

The Governmental Accounting Standards Board (GASB) Statement No. 3 requires disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the System's securities fails. Those investments represented by specific, identifiable securities are classified into three categories of credit risk: Category 1 — Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 — Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 — Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping securities as defined by GASB.

The System's investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the System's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools are considered to be Category 1 as defined by GASB Statement No. 3, except: (A) investments in the mutual fund-like Emerging Markets Equity Pool which are considered to be Category 2, and (B) shares in the Private Equity Pool and the Real Estate Equity Pool which, like the System's mortgage-related assets, are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

**Alaska State Pension Investment Board
Recaptured Commission Fees Received in FY 2003**

	<u>Domestic Equity</u>	<u>International Equity</u>	<u>Total</u>
PERS	\$ 395,758	149,403	545,161
TRS	194,552	73,085	267,637
Judicial	3,675	1,363	5,038
Military	<u>612</u>	<u>166</u>	<u>778</u>
Total	<u>\$ 594,597</u>	<u>224,017</u>	<u>818,614</u>

The Alaska State Pension Investment Board (ASPIB) entered into a commission recapture program in late June 1995 with three large block brokerage firms. A commission recapture program is a form of directed brokerage that allows the plan sponsor to "recapture" a portion of commission dollars paid to broker-dealer firms for executing trades. In June 1995, the large capitalization domestic equity managers were asked to participate in the program targeting 20% of their trading value. The equity managers were asked to consider best execution first and foremost, but encouraged to participate in the commission recapture program when possible. In July 1996, ASPIB raised the level of elective participation for the large capitalization domestic equity managers from 20% to 30% of total trading activity. At that time, ASPIB also requested that small capitalization managers participate in the commission recapture program when the opportunity was available to them.

In January 1998, the Alaska State Pension Investment Board (ASPIB) augmented its commission recapture program to include external managers that conduct international equity trades. As a result, a portion of the commission recapture payments received since January 1998 have resulted from international equity trades.